

**TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT MORRISTOWN**

**FOR THE YEARS ENDED
JUNE 30, 1995, AND JUNE 30, 1994**

Arthur A. Hayes, Jr., CPA

Director

Charles K. Bridges, CPA

Assistant Director

Tammy Gourley, CPA

Audit Manager

Tammy L. Fletcher

In-Charge Auditor

Chris Gish

Jeff LaFever

Pamela Shipp

Ann Taylor

Staff Auditors

Dianne Mitchell, CPA

Technical Manager

Fawn W. Ellis, CPA

Technical Reviewer

Leslie Bethea

Editor

December 11, 1996

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable Charles E. Smith, Chancellor

Tennessee Board of Regents

1415 Murfreesboro Road, Suite 350

Nashville, Tennessee 37217

and

Ms. Lynn Elkins, Director

Tennessee Technology Center at Morristown

821 West Louise Avenue

Morristown, Tennessee 37813

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technology Center at Morristown (formerly Morristown State Area Vocational-Technical School), for the years ended June 30, 1995, and June 30, 1994. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. The center has elected not to record the liability for accrued compensated absences in its financial statements. In our opinion, accrued compensated absences should be recorded to conform with generally accepted accounting principles.

Consideration of the internal control structure and tests of compliance resulted in no audit findings.

Very truly yours,

W. R. Snodgrass

Comptroller of the Treasury

WRS/sdr

96/059

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Technology Center at Morristown
For the Years Ended June 30, 1995, and June 30, 1994

AUDIT OBJECTIVES

The objectives of the audit were to consider the center's internal control structure; to determine compliance with laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is qualified because of the omission of the liability for accrued compensated absences from the financial statements.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

AUDIT REPORT
TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT MORRISTOWN
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

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TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT MORRISTOWN
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technology Center at Morristown. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the center’s internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

SCOPE OF THE AUDIT

The audit was limited to the period July 1, 1993, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1995, and June 30, 1994. The Tennessee Technology Center at Morristown is an institution of the Tennessee Board of Regents, which is

an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

BACKGROUND AND ORGANIZATION

BACKGROUND

A statewide system of area vocational-technical schools was established in 1963 by Section 49-11-401, *Tennessee Code Annotated*, to meet the occupational and technical training needs of the citizens of the state, including employees and future employees of existing and prospective industries and businesses in the state. The area vocational-technical schools were governed by the State Board of Education until July 1, 1983. At that time, governance was transferred by Section 49-11-402, *Tennessee Code Annotated*, to the Tennessee Board of Regents. Effective July 1, 1994, the area vocational-technical schools became state technology centers. The Tennessee Technology Center at Morristown began operation in 1966.

ORGANIZATION

The Tennessee Technology Center at Morristown operates under a lead institution agreement with Walters State Community College. Under this agreement, Walters State Community College performs the accounting and reporting functions for the center. The chief administrative officer of the center is the director, who is assisted and advised by members of the faculty and administrative staff. The director is responsible to the Chancellor of the Tennessee Board of Regents.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The center filed its report with the Department of Audit on April 11, 1995. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the center has corrected previous audit findings concerning the failure to perform an annual physical inventory of equipment and the failure to comply with the Board of Regents purchasing policy.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Structure

As part of the audit of the center's financial statements for the years ended June 30, 1995, and June 30, 1994, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. Consideration of the internal control structure disclosed no material weaknesses.

Compliance with Laws and Regulations

The results of our tests disclosed no instances that are required to be reported herein under generally accepted government auditing standards. The compliance report follows the report on the internal control structure.

Fairness of Financial Statement Presentation

The center has elected not to accrue the liability for compensated absences. Since this accounting practice is contrary to generally accepted accounting principles, the Division of State Audit has rendered a qualified opinion on the center's financial statements. The independent auditor's report follows the compliance report.

**Report on the Internal Control Structure
Based on an Audit of the Financial Statements
Performed in Accordance with
*Government Auditing Standards***

June 13, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Tennessee Technology Center at Morristown, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated June 13, 1996. Our report was qualified because the center excluded the liability for accrued compensated absences from the balance sheets.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The center's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected.

The Honorable W. R. Snodgrass

June 13, 1996

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Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the center's financial statements for the years ended June 30, 1995, and June 30, 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the center's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

**Compliance Report Based on an Audit of the
Financial Statements Performed in Accordance
With *Government Auditing Standards***

June 13, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Tennessee Technology Center at Morristown, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated June 13, 1996. Our report was qualified because the center excluded the liability for accrued compensated absences from the balance sheets.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the center is the responsibility of the center's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the center's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

The Honorable W. R. Snodgrass
June 13, 1996
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We did, however, note certain immaterial instances of noncompliance that we have reported to the center's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

Independent Auditor's Report

June 13, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Tennessee Technology Center at Morristown, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1995, and June 30, 1994, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the center's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the center has excluded the liability for accrued compensated absences from the accompanying balance sheets. In our opinion, accrued compensated absences should be included to conform with generally accepted accounting principles.

The Honorable W. R. Snodgrass
June 13, 1996
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In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Tennessee Technology Center at Morris-town, as of June 30, 1995, and June 30, 1994, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

In accordance with generally accepted government auditing standards, we have also issued reports dated June 13, 1996, on our consideration of the center's internal control structure and on its compliance with laws and regulations.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT MORRISTOWN
BALANCE SHEETS
JUNE 30, 1995, AND JUNE 30, 1994

	June 30, 1995	June 30, 1994		June 30, 1995	June 30, 1994
ASSETS			LIABILITIES AND FUND BALANCES		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 3 and 4)	\$ 262,557.60	\$ 364,380.71	Liabilities:		
Accrued interest receivable	183.33	108.00	Accounts payable	\$ 726.64	\$ 8,463.38
Accounts receivable (net of allowance			Accrued liabilities	48,367.97	49,213.47
of \$266.70 at June 30, 1995, and			Checks payable (Note 6)	-	151,344.77
\$16.24 at June 30, 1994)	4,322.74	12,182.53	Other liabilities	2,299.16	2,220.91
Inventories (Note 5)	102.41	178.88	Total liabilities	51,393.77	211,242.53
Due from restricted current funds	-	26,608.59			
Other assets	125.00	125.00			
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital (Note 7)	2,413.67	10,520.27
			Allocation for encumbrances	114,449.45	77,789.93
			Discretionary allocation:		
			Allocation for subsequent budget	50,000.00	45,300.00
			Unallocated	49,034.19	58,730.98
			Total fund balances	215,897.31	192,341.18
Total general	267,291.08	403,583.71	Total general	267,291.08	403,583.71
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	60,797.33	49,027.81	Liabilities:		
Accounts receivable	1,205.23	16,653.15	Accounts payable	758.26	1,798.70
Inventories (Note 5)	41,896.16	29,798.16			
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital (Note 7)	43,101.39	46,451.31
			Allocation for encumbrances	960.72	22,146.04
			Unallocated	59,078.35	25,083.07
			Total fund balances	103,140.46	93,680.42
Total auxiliary enterprises	103,898.72	95,479.12	Total auxiliary enterprises	103,898.72	95,479.12
Total unrestricted	371,189.80	499,062.83	Total unrestricted	371,189.80	499,062.83
Restricted:			Restricted:		
Cash and cash equivalents (Notes 3 and 4)	2,945.15	-	Liabilities:		
Accounts and grants receivable	2,746.66	54,403.28	Accrued liabilities	-	2,412.02
			Due to unrestricted current funds	-	26,608.59
			Total liabilities	-	29,020.61
			Fund balance	5,691.81	25,382.67
Total restricted	5,691.81	54,403.28	Total restricted	5,691.81	54,403.28
Total current funds	\$ 376,881.61	\$ 553,466.11	Total current funds	\$ 376,881.61	\$ 553,466.11
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 3 and 4)	\$ 10,000.00	\$ 10,000.00	Fund balance:		
			Unrestricted	\$ 10,000.00	\$ 10,000.00
Total unexpended plant	10,000.00	10,000.00	Total unexpended plant	10,000.00	10,000.00
Renewals and replacements:			Renewals and replacements:		
Cash and cash equivalents (Notes 3 and 4)	41,494.18	93,822.18	Fund balance:		
			Unrestricted (Note 9)	41,494.18	93,822.18
Total renewals and replacements	41,494.18	93,822.18	Total renewals and replacements	41,494.18	93,822.18
Investment in plant (Note 8):			Investment in plant:		
Land	268,289.00	42,789.00	Fund balance:		
Buildings	1,834,501.53	1,834,501.53	Net investment in plant	5,157,046.07	4,670,646.18
Improvements other than buildings	31,534.00	31,534.00			
Equipment	2,679,423.55	2,761,821.65			
Construction in progress	343,297.99	-			
Total investment in plant	5,157,046.07	4,670,646.18	Total investment in plant	5,157,046.07	4,670,646.18
Total plant funds	\$ 5,208,540.25	\$ 4,774,468.36	Total plant funds	\$ 5,208,540.25	\$ 4,774,468.36
Agency funds:			Agency funds:		
Cash and cash equivalents (Notes 3 and 4)	\$ 5,993.42	\$ 6,387.31	Liabilities:		
			Accounts payable	\$ -	\$ 288.00
			Deposits held in custody for others	5,993.42	6,099.31
			Total agency funds	\$ 5,993.42	\$ 6,387.31
Total agency funds	\$ 5,993.42	\$ 6,387.31			

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT MORRISTOWN
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1995

	Current Funds		Plant Funds		
	Unrestricted	Restricted	Unexpended	Renewals and Replacements	Investment in Plant
REVENUES AND OTHER ADDITIONS					
Unrestricted current fund revenues	\$ 2,519,158.95	\$ -	\$ -	\$ -	-
Auxiliary enterprise revenues	171,383.52	-	-	-	-
State appropriations	-	-	568,797.99	-	-
Federal grants and contracts	-	464,040.83	-	-	-
Private gifts, grants, and contracts	-	167,375.25	-	-	3,500.00
Equipment use charges (Note 8)	-	-	-	21,050.00	-
Expended for plant facilities (including \$81,007.87 charged to current fund expenditures)	-	-	-	-	723,183.86
Other	-	-	-	-	5,000.00
Total revenues and other additions	<u>2,690,542.47</u>	<u>631,416.08</u>	<u>568,797.99</u>	<u>21,050.00</u>	<u>731,683.86</u>
EXPENDITURES AND OTHER DEDUCTIONS					
Educational and general expenditures	2,520,685.89	640,631.77	-	-	-
Auxiliary enterprise expenditures	136,840.41	-	-	-	-
Indirect costs recovered	-	2,334.87	-	-	-
Refunded to grantors	-	4,351.33	-	-	-
Expended for plant facilities	-	-	568,797.99	73,378.00	-
Disposal of plant facilities	-	-	-	-	244,283.97
Other	-	3,788.97	-	-	1,000.00
Total expenditures and other deductions	<u>2,657,526.30</u>	<u>651,106.94</u>	<u>568,797.99</u>	<u>73,378.00</u>	<u>245,283.97</u>
Net increase (decrease) for the year	33,016.17	(19,690.86)	-	(52,328.00)	486,399.89
Fund balances at beginning of year	<u>286,021.60</u>	<u>25,382.67</u>	<u>10,000.00</u>	<u>93,822.18</u>	<u>4,670,646.18</u>
Fund balances at end of year	\$ <u>319,037.77</u>	\$ <u>5,691.81</u>	\$ <u>10,000.00</u>	\$ <u>41,494.18</u>	\$ <u>5,157,046.07</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT MORRISTOWN
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1994

	Current Funds		Plant Funds		
	Unrestricted	Restricted	Unexpended	Renewals and Replacements	Investment in Plant
REVENUES AND OTHER ADDITIONS					
Unrestricted current fund revenues	\$ 2,274,795.67	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	154,445.74	-	-	-	-
Federal grants and contracts	-	469,197.09	-	-	-
Private gifts, grants, and contracts	-	153,440.99	-	-	-
Equipment use charges (Note 8)	-	-	-	21,320.00	-
Expended for plant facilities (including \$173,050.35 charged to current fund expenditures)	-	-	-	-	181,228.35
Total revenues and other additions	2,429,241.41	622,638.08	-	21,320.00	181,228.35
EXPENDITURES AND OTHER DEDUCTIONS					
Educational and general expenditures	2,437,852.09	600,395.79	-	-	-
Auxiliary enterprise expenditures	123,826.76	-	-	-	-
Indirect costs recovered	-	2,541.32	-	-	-
Expended for plant facilities	-	-	-	8,178.00	-
Other	-	920.21	-	-	-
Total expenditures and other deductions	2,561,678.85	603,857.32	-	8,178.00	-
Net increase (decrease) for the year	(132,437.44)	18,780.76	-	13,142.00	181,228.35
Fund balances at beginning of year	418,459.04	6,601.91	10,000.00	80,680.18	4,489,417.83
Fund balances at end of year	\$ 286,021.60	\$ 25,382.67	\$ 10,000.00	\$ 93,822.18	\$ 4,670,646.18

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
 TENNESSEE TECHNOLOGY CENTER AT MORRISTOWN
 STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
 FOR THE YEAR ENDED JUNE 30, 1995

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	\$ 258,880.75	\$ -	\$ 258,880.75
State appropriations	2,182,300.00	-	2,182,300.00
Federal grants and contracts	2,334.87	461,996.21	464,331.08
State grants and contracts	11,492.60	-	11,492.60
Private gifts, grants, and contracts	15,310.00	178,635.56	193,945.56
Sales and services of educational activities	13,270.07	-	13,270.07
Sales and services of auxiliary enterprises	171,383.52	-	171,383.52
Other sources	35,570.66	-	35,570.66
Total current revenues	2,690,542.47	640,631.77	3,331,174.24
EXPENDITURES			
Educational and general expenditures:			
Instruction	1,745,870.09	281,116.74	2,026,986.83
Student services	227,645.27	2,587.31	230,232.58
Institutional support	277,593.01	-	277,593.01
Operation and maintenance of plant	247,503.27	635.62	248,138.89
Scholarships and fellowships	22,074.25	356,292.10	378,366.35
Total educational and general expenditures	2,520,685.89	640,631.77	3,161,317.66
Auxiliary enterprises:			
Expenditures	136,840.41	-	136,840.41
Total auxiliary enterprises	136,840.41	-	136,840.41
Total expenditures	2,657,526.30	640,631.77	3,298,158.07
OTHER DEDUCTIONS			
Deficit of restricted receipts under transfers to revenues	-	(9,215.69)	(9,215.69)
Indirect costs recovered	-	(2,334.87)	(2,334.87)
Refunded to grantors	-	(4,351.33)	(4,351.33)
Other deductions	-	(3,788.97)	(3,788.97)
Net increase (decrease) in fund balances	\$ 33,016.17	\$ (19,690.86)	\$ 13,325.31

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGY CENTER AT MORRISTOWN
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1994

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 218,553.17	\$ -	\$ 218,553.17
State appropriations	1,991,250.00	-	1,991,250.00
Federal grants and contracts	2,541.32	464,837.64	467,378.96
State grants and contracts	13,800.50	-	13,800.50
Private gifts, grants, and contracts	10,616.00	135,558.15	146,174.15
Sales and services of educational activities	11,690.29	-	11,690.29
Sales and services of auxiliary enterprises	154,445.74	-	154,445.74
Other sources	26,344.39	-	26,344.39
Total current revenues	<u>2,429,241.41</u>	<u>600,395.79</u>	<u>3,029,637.20</u>
<u>EXPENDITURES</u>			
Educational and general expenditures:			
Instruction	1,648,036.32	210,871.02	1,858,907.34
Student services	253,493.12	2,282.11	255,775.23
Institutional support	274,654.07	-	274,654.07
Operation and maintenance of plant	254,906.83	812.61	255,719.44
Scholarships and fellowships	6,761.75	386,430.05	393,191.80
Total educational and general expenditures	<u>2,437,852.09</u>	<u>600,395.79</u>	<u>3,038,247.88</u>
Auxiliary enterprises:			
Expenditures	123,826.76	-	123,826.76
Total auxiliary enterprises	<u>123,826.76</u>	<u>-</u>	<u>123,826.76</u>
Total expenditures	<u>2,561,678.85</u>	<u>600,395.79</u>	<u>3,162,074.64</u>
<u>OTHER ADDITION</u>			
<u>(DEDUCTIONS)</u>			
Excess of restricted receipts over transfers to revenues	-	22,242.29	22,242.29
Indirect costs recovered	-	(2,541.32)	(2,541.32)
Other deductions	-	(920.21)	(920.21)
Net increase (decrease) in fund balance	<u>\$ (132,437.44)</u>	<u>\$ 18,780.76</u>	<u>\$ (113,656.68)</u>

The notes to the financial statements are an integral part of this statement.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The center is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of its governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

BASIS OF PRESENTATION

The financial statements of the center have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The center uses the AICPA College Guide model for accounting and financial reporting.

BASIS OF ACCOUNTING

The financial statements of the center have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as expenditures, for normal replacement of movable equipment.

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FUND ACCOUNTING

To ensure observance of limitations and restrictions placed on the use of the resources available, the center maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

Ordinary income derived from receivables and the like is accounted for in the fund owning such assets.

All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the center retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and consist of the bookstore. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

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Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, and (3) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the center acts solely as an agent; consequently, transactions of these funds do not affect the center's operating statements.

NOTE 2. COMPENSATED ABSENCES

The center's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally accepted accounting principles require that certain accrued compensated absences, the effects of which are material to the financial statements, be recorded as earned. The center's policy is to record such benefits as paid. The recognition of this liability for accrued compensated absences and related benefits would have increased the liabilities of the unrestricted current fund by \$113,324.77 at June 30, 1995, and \$105,423.61 at June 30, 1994, increased the unrestricted current fund expenditures by \$7,901.16 for the year ended June 30, 1995, and by \$8,737.98 for the year ended June 30, 1994.

NOTE 3. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 1995, cash and cash equivalents consisted of \$8,817.50 in bank accounts, \$1,010.00 of petty cash on hand, \$120,000.00 of certificates of deposit, and \$253,960.18 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1994, cash and cash equivalents consisted of \$2,333.40 in bank accounts,

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\$1,010.00 of petty cash on hand, \$120,000.00 of certificates of deposit, and \$400,274.61 in the State of Tennessee Local Government Investment Pool.

NOTE 4. DEPOSITS

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits. The pledged securities are included with securities pledged for funds on deposit for Walters State Community College, the center's lead institution. The bank balance of the operating account maintained by the center was entirely insured.

NOTE 5. INVENTORIES

Inventories are valued at the lower of cost or market. All items included in the inventory are recorded on a first-in, first-out basis.

NOTE 6. CHECKS PAYABLE

These amounts represent the sum of checks written in excess of the center's checking account balance because of the center's use of a controlled disbursement account. Through the use of a controlled disbursement account, the center maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

NOTE 7. ALLOCATION FOR WORKING CAPITAL

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

NOTE 8. PLANT ASSETS

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The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the center charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

NOTE 9. PLANT FUND ENCUMBRANCES

There were no plant fund encumbrances outstanding at June 30, 1995. Plant fund encumbrances outstanding at June 30, 1994, amounted to \$73,378.00 for renewals and replacements.

NOTE 10. DEFINED BENEFIT PENSION PLAN

All the center's regular employees may participate in a cost-sharing multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The payroll for employees covered by the TCRS plan was \$1,587,193.12 for the year ended June 30, 1995, and \$1,408,493.28 for the year ended June 30, 1994. The center's total payroll was \$1,723,871.81 for the year ended June 30, 1995, and \$1,520,722.46 for the year ended June 30, 1994.

TCRS members may retire at age 60 with five years of service or at any age with 30 years' service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. TCRS benefits are based on the number of years of creditable service and highest average salary for five consecutive years. Members attain vesting rights after five years of service. The TCRS also provides death and disability benefits. Benefits are established by state statute.

The center is required by state statute, effective July 1, 1981, to contribute the amounts necessary to pay benefits when due. Prior to that date, the employee bore a portion of the contribution. Members with contributory service who leave the center are eligible for a refund of their contributions, along with contributions made after July 1, 1981, on the employees' behalf by the center. The actuarially required

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contribution made for the year ended June 30, 1995, was \$100,597.39, which represented 6.34% of the covered payroll, and for the year ended June 30, 1994, was \$94,323.49, which represented 6.70% of the covered payroll.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the funding status of the TCRS on a going-concern basis, assess progress in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and among employers. The TCRS does not make separate measurements of assets and pension benefit obligation for individual state employers. Therefore, the following information is provided for the entire state employee portion of the TCRS. The pension benefit obligation at June 30, 1995, and at June 30, 1994, determined through an actuarial valuation performed as of June 30, 1995, was \$10,697.4 million and through an actuarial update performed as of June 30, 1994, was \$9,344.5 million. The net assets, at cost or amortized cost, available for benefits were \$11,566.8 million at June 30, 1995, and \$10,772.4 million at June 30, 1994, leaving assets in excess of pension benefit obligation of \$869.4 million at June 30, 1995, and \$1,427.9 million at June 30, 1994. The market value of the net assets available for benefits was \$12,552.1 million at June 30, 1995, and \$11,106.5 million at June 30, 1994. The center's 1995 and 1994 contributions represented .04% of total contributions required of all participating entities.

Ten-year historical trend information showing the progress of the TCRS in accumulating sufficient assets to pay benefits when due is presented in the June 30, 1995, *Tennessee Consolidated Retirement System Comprehensive Annual Financial Report*.

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NOTE 11. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible center retirees. This benefit is provided and administered by the State of Tennessee. The center assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 12. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance coverage.

At June 30, 1995, the scheduled coverage for the center was \$5,934,200.00 for buildings and \$2,572,900.00 for contents. At June 30, 1994, the scheduled coverage was \$5,934,200.00 for buildings and \$1,391,200.00 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional mal-practice, and workers' compensation. The center participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the center based on a percentage of the center's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the center participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the center for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

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The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The center participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the center based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Sick Leave - The center records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$507,415.77 at June 30, 1995, and \$440,177.20 at June 30, 1994.

Operating Leases - The center has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$24,000.00 and for personal property were \$4,549.10 for the year ended June 30, 1995. The amounts for the year ended June 30, 1994, were \$23,500.00 and \$6,305.88. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1995, outstanding commitments under construction contracts totaled \$98,647.50 for Tennessee Technology Center - Morristown Renovation and \$79,636.80 for the Rogersville Center, none of which will be funded by future state capital outlay appropriations.